The Sandur Manganese & Iron Ores Limited

Registered Office: 'SATYALAYA' Door No.266 (Old No.80), Ward No.1
Behind Taluk Office, Sandur - 583119, Ballari District, Karnataka
CIN: L85110KA1954PLC000759 Website: www.sandurgroup.com
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10 November 2020

The Secretary,
BSE Limited
P.J. Towers, Dalal Street
Mumbai – 400 001

Dear Sir/Madam,

Sub: Announcement under Regulation 30 of Securities & Exchange Board of India (Listing Obligations & Disclosure Requirements) Regulations, 2015 - Credit Ratings assigned/ reaffirmed by ICRA Limited.

In pursuance of provisions of Regulation 30 of SEBI (LODR) Regulations, 2015, we wish to inform the Exchange that ICRA Limited has issued rating rationale dated 06 November 2020, **assigning/re-affirming ICRA Ratings'**.

Facility	Previous Rate Amount (In ₹ Crore)	Current Rated Amount (In ₹ Crore)	Rating
Term Loan	400.00	400.00	[ICRA]A- (Stable) reaffirmed;
Cash Credit	10.00	10.00	[ICRA]A- (Stable) reaffirmed;
Short Term – Non-fund-based	60.00	341.00	[ICRA]A2+ reaffirmed
Short Term – Unallocated Facilities	130.00	-	-
Total	**600.00**	**751.00**	

Rating Rationale attached herewith. The above is for your information and record.

Thanking you.

Yours faithfully
for The Sandur Manganese & Iron Ores Limited

DIVYA AJITH Digitally signed by DIVYA AJITH Date: 2020.11.10 19:01:38 +05'30'

Divya Ajith
Company Secretary &
Compliance Officer

Encl: A/a

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November 06, 2020

The Sandur Manganese & Iron Ores Limited: Ratings reaffirmed; rated limits enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Term Loan	400.00	400.00	[ICRA]A- (Stable); reaffirmed
Cash Credit	10.00	10.00	[ICRA]A- (Stable); reaffirmed
Short Term - Non-fund based	60.00	341.00	[ICRA]A2+; assigned/ reaffirmed
Short Term - Unallocated	130.00	-	-
Total	**600.00**	**751.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings considers The Sandur Manganese & Iron Ores Limited's (SMIOL) comfortable financial risk profile characterised by a conservative capital structure, strong coverage indicators due to healthy profitability of mining operations, and adequate liquidity supported by unencumbered cash and liquid investment balances of Rs. 176 crore as on October 26, 2020. The ratings also favourably factor in established track record of SMIOL of over six decades in the mining industry and its status as one of the leading merchant miners of manganese and iron ore. The company has access to estimated iron ore reserves of 118.5 million tonnes (mt) and manganese ore reserves of 14.7 mt, which provide long-term revenue visibility to its mining operations. ICRA notes that while the ferro-alloys division of SMIOL remains loss making at present due to high power cost, expected power cost savings from the ramp up of coke oven plant, which has an associated 30-MW waste heat recovery boiler (WHRB) based captive power plant (CPP), would improve the profitability of the ferro-alloys division going forward.

The ratings are, however, constrained by the sizeable debt-funded capital expenditure towards setting up of coke oven plant, which has resulted in increased indebtedness. While the company started the first two coke oven batteries on time, the heating of the third and fourth batteries were delayed due to Covid-19 pandemic. Any further delays in achieving ramp-up of this plant would affect the overall profitability and business returns in the near term. The company also remains exposed to offtake risks for its coke manufacturing capacity. While the company has signed a memorandum of understanding (MoU) with a pig iron manufacturer in Karnataka to sell about 50% of its coke output on conversion basis, its ability to offload the agreed quantity and sell the balance production to other steel plants would remain critical to mitigate offtake related risks. ICRA has also factored in the risks arising from operating in a highly regulated iron ore and manganese ore mining industries, and the exposure of margins to volatility in prices of iron ore, manganese, coking coal and coke, given the inherent cyclicality in the end-user segments. The ratings also factor in sizeable contingent liabilities, which if crystallised, could adversely impact the financial risk profile of SMIOL.

The 'Stable' outlook on the [ICRA]A- rating reflects ICRA's opinion that demand from steel industry is expected to remain steady in the near-to-medium term, which coupled with SMIOL's low cost mining operations, would lend comfort to its overall financial risk profile.

ICRA notes that SMIOL had sought a moratorium on payments from its lender as a part of the Covid-19 - Regulatory Package announced by the Reserve Bank of India (RBI) on March 27, 2020 and had missed its payments due on March

31, 2020, even as a formal approval from the lender was received subsequent to the original date of debt servicing. Despite the missed payment, ICRA has not recognised this instance as a default as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Key rating drivers and their description

Credit strengths

Comfortable financial risk profile and healthy cash and liquid investments – The company's financial risk profile remains comfortable marked by a conservative capital structure with a strong net worth of Rs. 839.7 crore as on March 31, 2020, healthy profitability and coverage indicators, and a comfortable liquidity position supported by healthy cash and liquid investment balances of Rs. 176 crore as on October 26, 2020. Going forward, despite the ongoing debt-funded capex, the capital structure and liquidity position are expected to remain comfortable due to healthy cash generation from the mining business.

Established track record of over six decades in mining industry; considerable sector experience of promoters – SMIOL was incorporated in 1954 by the former ruler of the Princely state of Sandur, Mr. Yashwanthrao Hindurao Ghorpade. SMIOL produces iron ore with Fe content of around 58-63%, with lump to fine production ratio of 1:2. The company is also among the large miners of manganese ore in India. In addition, SMIOL manufactures ferro-alloys (silico-manganese) from its 36,000-metric-tonnes-per-annum (MTPA) plant in Vyasankare, near Hospet in Karnataka, providing a diversified revenue stream.

One of the largest private sector iron ore and manganese ore miners in Karnataka with adequate reserves – Currently, the company has two mining leases, valid up to December 2033, with proven reserves of almost 118.5 mt of iron ore and around 14.7 mt of manganese ore and with an annual production capacity of 1.6 mtpa and 0.4 mtpa for iron ore and manganese ore respectively. ICRA takes comfort from the vast reserves, long validity of the mining licence and the established presence of the company in the mining industry. ICRA also takes comfort from the low-cost iron ore mining operations of Rs. 400 per MT, which supports the profitability of the mining division.

Expected power cost savings from the ramp up of coke oven plant operations – The company is in the process of setting up a 400,000-MTPA coke oven plant and 30 MW WHRB based CPP. The power generated from the WHRB will cover the entire power requirement of the ferro-alloys division, which is currently loss-making due to high power costs. While two out of four coke oven batteries are already operational at optimal capacity, the other two are undergoing heating process and will start commercial production by December 2020. Going forward, the expected cost savings from the ramp up of coke oven plant operations would support the margins of ferro-alloys division.

Credit challenges

Sizeable capital expenditure resulting in increased indebtedness; exposure to coke offtake risks – SMIOL's ongoing debt-funded capex programme is sizeable vis-à-vis its current scale of operations, exposing it to the risks related to project stabilisation, time and cost overrun. While the company started first two coke oven batteries on time, the heating process of the third and fourth batteries was delayed due to Covid-19 pandemic. These are expected to start commercial production in December 2020 against the earlier commercial operation date of March 31, 2020. Any further delays in achieving ramp-up of this plant would affect overall profitability and business returns in the near term. The company also remains exposed to offtake risks given the large coke manufacturing capacity. While the company has signed an MoU with a pig iron manufacturer in Karnataka to sell 50% of its coke output on conversion basis, its ability to offload the agreed quantity and sell the balance production to other steel plants would remain critical to mitigate offtake related risks. ICRA also notes that the company has sought approval to increase the iron ore mining limit from 1.6 mtpa to 3.5 mtpa, which would entail capex of Rs. 300 crore. Out of this, the company has already incurred capex of Rs. 80 crore. In case the approval is received, and the balance capex is funded by external borrowing, SMIOL's indebtedness would increase further.

Exposure to price risks and risks arising from operating in a highly regulated mining industry – SMIOL is exposed to fluctuation in coking coal and coke prices, given the large lead time of the entire process, from ordering coking coal to selling coke, is expected to keep the company's profitability and cash flows volatile. Nevertheless, such price risks are limited to 50% of SMIORE's output as it is planning to do conversion job for 50% of its total sales in the near term, which would have a fixed margin. SMIOL's earning from the mining business also remains volatile, as it is exposed to fluctuation in the prices of iron ore and manganese ore and to changes in the regulatory framework (as witnessed by the mining restriction imposed in Karnataka in the past). Metal ores and ferro-alloy prices exhibit considerable cyclicality, and are highly sensitive to global demand patterns and general macro-economic factors.

Sizeable contingent liabilities – SMIOL has sizeable contingent liabilities, which primarily include disputed income tax claims of Rs. 63.6 crore and payments related to forest development tax of Rs. 61.7 crore as on March 31, 2020. While the company has been paying the income tax claims under protest, the invocation of the same could adversely impact its net worth. On the other hand, crystallisation of its forest development tax liability could affect both, cash generation and net worth, as the same has not been paid by the company so far.

Liquidity position: Adequate

SMIOL's liquidity position is adequate, supported by healthy cash accruals, despite the sizeable capex undertaken in the recent past. Out of total envisaged capex of Rs. 686 crore towards coke oven plant and mine upgradation, the company has incurred Rs. 633 crore till September 2020. The company does not have any repayment obligations in the current fiscal while the repayments in FY2022 are Rs. 57 crore. The liquidity profile is further supported by unencumbered cash and liquid investments of Rs. 176 crore as on October 26, 2020 and unutilised fund-based limits of Rs. 10 crore.

Rating sensitivities

Positive triggers – ICRA could upgrade SMIOL's rating if the company is able to achieve desired power cost benefits for its ferro alloy division and tie-up with steel plants to mitigate the offtake risks for its coke oven operations and/or if the debt-to-operating profit remains below 1.5 times on a sustained basis.

Negative triggers – Negative pressure on SMIOL's rating could arise in case of any large unanticipated debt-funded capex and/or lower-than-expected cash accruals because of unfavourable movement in prices of iron ore/manganese ore and/or if the return on capital employed remains below 15% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Mining Entities Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

The Sandur Manganese & Iron Ores Limited (SMIOL), the flagship company of the Karnataka-based Sandur Group, was promoted in 1954 by the former ruler of the Princely state of Sandur, Mr. Yashwanthrao Hindurao Ghorpade (YHG). Mr. Bahirji Ghorpade, grandson of Late Shri M Y Ghorpade has been appointed as the Managing Director of the company w.e.f. June 17, 2020.

SMIOL is involved in mining of low phosphorous manganese and iron ore in the Hosapete-Ballari region of Karnataka. It has large mines with two leases, ML-2678 and ML-2679, with an area of 1860.10 hectares (ha) and 139.20 ha, respectively. The entire lease area is in the forest land, falling under Swamy Mallai (SM) and Rammana Mallai (RM) forest blocks of Sandur Range. The permissible production capacity is 1.6 mtpa for iron ore and 0.4 mtpa for manganese ore. In addition, SMIOL manufactures ferro-alloys (silico-manganese) at its 36,000-MTPA plant in Vyasankare, near Hospet, and has a captive coal-based power plant of 32 MW capacity.

In FY2020, on consolidated level, SMIOL reported a profit after tax (PAT) of Rs. 147.4 crore on an operating income (OI) of Rs. 591.6 crore compared to a PAT of Rs. 147.4 crore on an OI of Rs. 702.5 crore in FY2019.

Key financial indicators

	FY2019	FY2020	Q1 FY2021
Operating Income (Rs. crore)	702.5	591.6	128.6
PAT (Rs. crore)	147.4	147.4	23.3
OPBDIT/OI (%)	31.9%	33.0%	28.9%
PAT/OI (%)	21.0%	24.9%	18.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.0	0.5	-
Total Debt/OPBDIT (times)	0.0	2.1	-
Interest Coverage (times)	35.1	29.0	24.5

Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; Source: SMIOL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2021	FY2020	FY2019	FY2018	
					Nov-6-2020	May-11-2020	Jul-8-2019	Jun-22-2018	Jun-2-2017	May-24-2017
1	Term Loans	Long Term	400.0	400.0*	[ICRA]A- (Stable); Reaffirmed	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Cash Credit	Long Term	10.0		[ICRA]A- (Stable); Reaffirmed	[ICRA]A- (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-	-
3	Letter of credit	Short Term	341.0		[ICRA]A2+; Reaffirmed/assigned	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-
4	Unallocated	Short Term	-		-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-

*Amount in Rs. crore; *As on September 30, 2020*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2018	-	FY2028	400.0	[ICRA]A- (Stable); Reaffirmed
NA	Cash Credit	-	-	-	10.0	[ICRA]A- (Stable); Reaffirmed
NA	Letter of credit	-	-	-	341.0	[ICRA]A2+; Reaffirmed/assigned

Source: SMIOL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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